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Report Highlights:

Post continues to forecast a 15 to 17 million metric ton decline in rice production for MY 2009/10. India is facing a paradoxical situation of large government grain stocks with high domestic prices. The recent decline in global wheat prices has made wheat imports into south India economically viable. However, imports are restricted by phytosanitary conditions. Wholesale prices for pulses (beans, peas, and lentils – which are a major source of protein) have risen sharply in recent months, notwithstanding large imports by the government and private trade.

General Information:

RICE

Production outlook unchanged

After prolonged dry weather, precipitation in late August and early September was above normal in most parts of

drought affected eastern India. This benefitted the standing rice crop. However, the rains arrived too late to support additional rice planting. By the end of September, progressive rice planting was six million hectares behind the previous year's level. Assuming an average national yield level of around two tons per hectare, this would translate into a production loss of at least 12 million tons. The poor rainfall also coincided with the critical grain filling stage for the rice crop in eastern and central India. Heavy rains in early October caused a serious flooding problem in the major rice growing southern states of Andhra Pradesh and Karnataka, damaging the standing rice crop and further tempering *kharif* production prospects.

On September 24th and 25th, state agricultural officials met with the Government of India's (GOI) Agriculture Ministry in Delhi to discuss crop plans for the *rabi* (winter season); however they were unable to release a preliminary production estimate of the *kharif* (fall and early winter harvested) crops, including rice. The GOI is expected to release its preliminary production forecast of various *kharif* crops by October 15. The GOI is urging state governments to increase *rabi*/summer rice area coverage by 1.2 to 1.5 million hectares and production by 3.5 to 4.0 million tons above the MY 2008/09 levels to partly offset the production decline in the *kharif* season. For further details visit: www.pib.nic.in/release/release.asp?relid=52838. However given the agro climatic constraints, limited irrigation availability and poor soil moisture conditions, it will very difficult to reach such an ambitious area and production target. According to government reports, water level in 81 major irrigation dams was only 57 percent of the full storage capacity compared with 82 percent a year ago. Post continues to forecast a 15 to 17 million ton decline in MY 2009/10 rice production from the 2008/09 record production of 99.2 million tons.

Procurement likely to be lower

With lower production, government rice procurement under price support is also likely to decline from the record level of 33.2 million tons in MY 2008/09. Most of the decline is likely to be confined to Uttar Pradesh and Bihar; however, procurement in the major surplus state of Punjab is expected to remain around the MY 2008/09 level of 8.6 million tons, as the mostly irrigated rice crop in Punjab was not affected by poor monsoon rains. Even if the GOI manages to procure a major share of domestic production offering a higher support price, domestic rice prices are likely to remain firm due to reduced open market availability and higher support price (Rs. 9,500 (\$198) per ton for Common varieties and Rs. 9,800 (\$204) per ton for Grade A varieties of un-milled rice).

The table below shows rice procurement by state in MY 2008/09 and MY 2007/08.

Table 1. India Rice Procurement by State (thousand tons)

	MY 2008/09	MY 2007/08
Andhra Pradesh	8,695	7,417
Punjab	8,553	7,907
Uttar Pradesh	3,612	2,891
Chhattisgarh	2,842	2,743
Orissa	2,778	2,349
West Bengal	1,653	1,508
Haryana	1,425	1,572
Tamil Nadu	1,191	968

Bihar	1,083	Neg
Other	1,336	697
Total	33,198	28,502

Ample Government stocks

Thanks to record procurement in MY 2008/09, government-held rice stocks were 17.2 million tons on September 1, 2009, compared with 8.5 million tons a year earlier. Stocks on October 1, 2009, are projected to be around 15 million tons, the highest level since 2002, and well above the government's desired October 1 buffer stock level of 5.2 million tons. However, privately held stocks, for which no reliable estimates are available, are expected to be much lower than in previous years as the higher support price has ensured that the greatest share of surplus is purchased by the GOI. Although the GOI is supplying adequate quantities of rice and wheat to various state governments for distribution through the public distribution system at subsidized prices, several states are unable to make use of the allocated quantities due to financial and administrative constraints. Thus, the country is facing the paradox of large government grain stocks and high food prices. With a significant shortfall in rice production, grain prices in general, and rice prices in particular are likely to firm up in coming months.

Trade subdued

Although there has been some discussion about the Government considering abolishing the import duty on rice, there has not been any official notification. But even if the import duty is removed, large scale imports are unlikely as long as global rice prices remain firm. Due to concerns over high domestic rice prices, the GOI is unlikely to permit exports of non-basmati rice in the near future. However, exports of the premium aromatic basmati rice will benefit following the GOI decision to lower the minimum export price to \$900 per ton from the earlier \$1,100 per ton. The official notification is available at: <http://164.100.9.245/exim/2000/not/not09/not0509.htm>. The recently revised Iranian rice import duty, from 21 percent to 41 percent, will have a negative impact on India's exports of PUSA 1121 variety basmati rice. Over recent months, Iran has been a major market for this variety of rice.

WHEAT

Planting conditions not favorable

Poor late season monsoon rains in major wheat growing areas combined with above normal temperatures did not provide favorable conditions for wheat planting starting from mid-October. Poor water table levels in major irrigation reservoirs also do not bode well for increased wheat planting. The GOI has set the 2010 wheat production target at 79 million tons, marginally lower than the 2009 production of 80.6 million tons. However, achieving even this lower production target will be difficult unless the non-irrigated wheat growing regions in Madhya Pradesh, Rajasthan, Uttar Pradesh and Bihar receive some rains soon followed by good back up winter rains.

Stocks comfortable but prices firm

Government-held wheat stocks on September 1, 2009, were 30.1 million tons compared with 23.3 million tons a year ago. As in the case of rice, notwithstanding large government stocks, domestic wheat prices have firmed up with the indicative Delhi wholesale price for ordinary milling wheat now at around Rs. 12,000 (\$250 per ton). Wholesale wheat price in south India is currently around Rs. 13,700 (\$285) per ton.

Imports become viable

The recent sharp decline in global wheat prices, combined with strengthening domestic wheat prices in India and the continuing zero import duty regime, has made wheat imports into south India economically viable. While the domestic price for ordinary milling quality wheat in south India is currently around Rs. 13,700 (\$285) per metric ton, and is likely to further increase in coming months, low quality Ukraine wheat is available for less than Rs. 10,000 (\$206) per ton CIF at south Indian ports. However, according to trade sources, wheat imports into India would become possible only if the Government restores the relaxed Phytosanitary conditions announced in 2006, which were valid only through February 2007.

(www.plantquarantineindia.org/pdf/wheat%20import%20relaxation%203%5b1%5d.7.2006.pdf).

COARSE GRAIN

Production likely to be lower

The Government's progressive planting data shows that area planted to coarse grains during the current *kharif* season is marginally below last year's level, with most of the decline confined to millet. Area planted to corn and sorghum is marginally ahead of last year's level. However, poor and uneven rainfall in major growing regions could lower yields resulting in lower production from last year's level (19.3 million tons of corn and 7.3 million tons of sorghum). The decline in *kharif* production could be offset by higher production in the *rabi* season, provided growing conditions are favorable.

PULSES

Area Up

Area planted to *kharif* pulses such as pigeon pea, black matpe, and mung beans is marginally ahead of last year as farmers who could not plant rice shifted to pulse crop (due to inadequate rainfall). However, yields are likely to be lower due to moisture stress. The Government has announced an ambitious plan to bring an additional 1.5 million hectares over and above normal planting for pulse cultivation in the *rabi* season. However, much will depend on the availability of seeds, weather factors, and competitiveness of pulses vis-à-vis other competing crops such as wheat and rapeseed.

Prices skyrocket

Domestic pulse prices have climbed to record levels in recent months due to domestic shortages and high international prices. The current indicative Delhi wholesale prices per ton of some major pulses are: pigeon pea – Rs. 52,500

(\$1,093); black matpe – Rs. 41,000 (\$854); lentil – Rs. 47,500 (\$990); desi chick pea – Rs. 22,750 (\$474); yellow peas – Rs. 17,750 (\$370), and green peas – Rs. 22,500 (\$470). These are 50 to 70 percent higher than prices last year. Even though government agencies and private trade are importing larger quantities of pulses (imports during April through July reached 900,000 tons, a 50 percent increase over the previous year), domestic prices are not showing any signs of softening.